PUBLIC
INTEREST
LAW
CENTRE

CENTRE
JURIDIQUE
DE
L'INTÉRÊT
PUBLIC

AN INDEPENDENT SERVICE OF LEGAL AID MANITOBA

L'AIDE JURIDIQUE DU MANITOBA

SUPPORTED BY LEGAL AID MANITOBA THE MANITOBA LAW FOUNDATION AND MEMBERS OF THE MANITOBA BAR ASSOCIATION

200 – 393 PORTAGE AVE
WINNIPEG, MANITOBA
R3B 3H6

TEL: 204.985.8540
FAX: 204.985.8544

E-MAIL: centre@pilc.mb.ca

Writer's direct line: (204) 985-8533
Email: bwilliams@pilc.mb.ca

June 19, 2015

The Public Utilities Board of Manitoba
Attention: Mr. Darren Christle, Executive Director and Board Secretary
400-330 Portage Avenue
Winnipeg, MB R3C 0C4

Dear Mr. Christle:

Re: Issues related to potential Manitoba Hydro Rate Application 2016/17

Thank you for providing the Coalition with the opportunity to provide comments on issues related to any potential Manitoba Hydro General Rate Application for 2016/17.

Recommendation 1 – there should be an oral public hearing in the event Hydro seeks a rate increase for 2016/17

Our clients are of the view that an oral public hearing should be held if Manitoba Hydro seeks a rate increase in 2016/17. There are five reasons such a hearing should be held:

i. **Honouring the spirit of the NFAT recommendation** – The NFAT recommendation appeared to be premised on the view that development of the US transmission line and Keeyask should proceed in parallel with efforts to mitigate the rate impact of Hydro's development plan to a level lower than 3.95% taking into account a number of considerations including a review of Hydro's financial target. The issue of rate mitigation for all Manitoba consumers in the context of a review of financial targets has not taken place.

ii. **Public Accountability** - An increase of such a magnitude should not be passed through without an oral public process in which Manitoba Hydro is held to strict account for its choices. Hydro should be held accountable and asked to demonstrate that it is protecting ratepayers in these troubled times.

iii. **The uncompleted work from this proceeding.** There have been many issues raised in this proceeding relating to:

A. the reliability of Hydro's forecasts especially as they relate to interest rates, export revenues and capital programs

B. the need to demonstrate a modern approach to capital portfolio expenditures including a reliance on actual asset health (as opposed to ageing), an integrated analysis that includes tradeoffs between capital, maintenance and operational expenditures, a consideration of alternatives at the business unit and corporate level tied to budgetary and risk objectives and appropriate metrics for performance.

C. the need for a plan to control O, M and A on the capital side

D. Hydro's failure to comply with PUB directives regarding depreciation

E. whether a target of 1% growth in operational O, M and A is sufficient and whether further wage restraint is required

F. the need for financial targets to reflect the current expansionary mode and risk profile of the Corporation

G. the need for enhanced protection for vulnerable consumers including enhancements to the AEP and recommendations flowing from the collaborative process. A GRA is needed to hold Hydro accountable and for Hydro to report back on what it is doing in terms of protecting ratepayers.

iv. **Ongoing monitoring of the risks to consumers from large capital projects** - The rate regulator and consumers need to be assured that Hydro is on top of its management of BP3 and Keeyask given the experience with adverse developments related to Wuskwatim. This is particularly the case given recent adverse development related to BPIII capital costs. There is reason to be concerned with the cost estimates associated with the project. This adds to the need for a GRA to ensure that developments on the project are being monitored and that no additional risks to ratepayers have been identified.

v. **Public concerns and the need for accountability** - We are seeing signs in Hydro's own polling of a statistically significant decline in approval for rate levels. Manitobans will expect and demand a hearing and accountability.

In Appendix A to this letter, we have set out a potential roadmap of tasks that Hydro should be prepared to address in the context of its next GRA. From our clients' perspective, Hydro should be instructed to advise the PUB on when it could be ready for a GRA in which the roadmap issues could be addressed and where Hydro's argument in favour of a rate increase could be deliberated.

Recommendation 2 – Process in the event Manitoba Hydro seeks an interim rate increase

It appears unlikely that a GRA for Hydro could be heard prior to April 1, 2016 given the magnitude of issues facing the Corporation and the busy regulatory calendar of the PUB (MPI, Centra, Hydro cost of service).

The Coalition generally is not supportive of interim rate increases. In the Coalition's experience when interim rates are granted they effectively become the status quo. The Coalition is of the view that utilities should be expected to regularize their planning cycle so interim rates become unnecessary. For example, MPI has a regular planning cycle involving a GRA every fall.

While the Coalition generally does not recommend interim rate increases, if the Board is of the view that an interim rate might be entertained, it would recommend that Manitoba Hydro be advised that it will be expected to regularize the Hydro rate application so that interim rates become an exception to the rule rather than a relatively frequent occurrence.

Should Hydro apply for an interim rate, the Coalition would recommend that parties be allowed an opportunity for questions of clarification and to comment.

The preliminary view of the Coalition is that any interim rate should be in the range of inflation. From its perspective, an increase in the magnitude of 3.95% should not be authorized on an interim basis unless Hydro demonstrates urgent need.

The granting of a interim rate in the range of inflation would offer further incentive for Hydro to demonstrate progress in addressing the PUB roadmap. In any GRA, Hydro should demonstrate that:

- forecast challenges have been addressed
- its management is reasonable and prudent
- its financial targets appropriately reflect the realities of its current expansionary mode
- its capital programs are proceeding according to plan
- its level of risk is manageable.

Conclusion

The Coalition appreciates the opportunity to offer its comments on matters relating to any 2016/17 rate application.

Yours truly,

Byron Williams
Director
/sk

Appendix A
Preliminary Roadmap of Matters to be addressed by Manitoba Hydro in the 2016/17 GRA

1) Sustaining Capital

a. It is clear that Sustaining capital includes investments (particularly at the transmission and distribution levels) to address growth in load as well as refurbishment of existing facilities per Exhibit 115 – see quote:

> Following extensive discussions with Executive Committee, alternative 3 was selected in order to manage the risks of reliability, safety and load growth. As discussed in Tab 4 of the Application, some of Manitoba Hydro's assets are in poor condition with ages well beyond industry standards and significant investment is required to mitigate the negative impacts of ageing infrastructure on the electrical system. The increased capital investment is supported by the findings from the Electric Infrastructure Condition Assessment Report. **In addition, a number of areas in the province require investment in order to address higher than average load growth. Electric load in an increasing number of service areas has grown to the point where Manitoba Hydro may not be able to adequately supply load in the event of an outage despite contingency plans.** (emphasis added)

MH should be directed to separate out sustaining capital associated with growth as opposed to addressing ageing infrastructure as the cost drivers are fundamentally different.

b. With respect to investments to sustain the system – MH should directed to:

i. Clearly demonstrate the basis for its Asset Health Indexes including parameters and weights, estimates of the probability of failure and of the criticality of failure. In the case of assets where the primary parameter is age rather than effective age, Hydro should be asked to articulate why this is reasonable or explain when it intends to move to an effective age assessment.

ii. Clearly indicate how possible capital projects are prioritized at the business unit and corporate level including an explanation and demonstration of the analytics used and how they relate to objectives of budget, performance and risk.

iii. Clearly show how the projects in the CEF relate to the results of this prioritization, including what are the lowest priority projects included and what were the projects that would be included if more funds were available.

iv. Clearly articulate the expected metrics or outcomes of the investment including a probabilistic assessment of a reasonable range of outcomes (ie for distribution it might include expected results for SAIDI and SAIFI within 2 standard deviations).

c. With respect to the "growth" portion of Sustaining – indicate the timing need for projects in CEF.

d. Convene a technical conference (prior to the next GRA filing) to explain the analytics used in: a) the development of the Health Indexes; b) assessing the priority of addressing shortcomings asset condition; c) determining the amount of spend and projects to be included in the CEF. (Note – the emphasis should be on the word "technical". The expectation is the parties will be see the methodologies used and the resulting information that is considered by management).

2) Major G&T Capital

a. Confirm continuing need/economics of major projects as well as implications/ability to shift timing of in-service, in order to manage rate/financial target impacts if needed.

3) OM&A

a. Provide MH's progress to date in meeting its <u>operational</u> OM&A targets/staff reductions. Also provide its plans for continued productivity improvement and future targets including whether additional wage restraint is required.

b. Provide a plan and targets for driving meaningful efficiency improvements in its <u>Capital-related</u> OM&A spending.

c. Provide a plan for addressing the PUB's outstanding directive re – benchmarking or, in the alternative, file and request – with reasons – for the Board to review/vary its directive.

4) Depreciation & Amortization

a. Review the average life of MH DSM initiatives and provide the related amortization period.

b. Within 3 months provide a timeline and work plan for complying with Directives 8 and 9 from 43/13.

c. Involved MH auditors in an assessment to the componetization required to make ASL – based depreciation IFRS.

5) Financial Targets

a. Provide results of Financial Target Review and recommendations.

6) Forecast Parameters

a. Update primary economic assumptions (interest rate/exchange rate/export price outlook) used in IFF for most recent available data – prior to filing.

7) Interest Rates

a. Undertake a review (preferably 3rd party) of interest rate forecast methodology and track record with a view to providing recommendations on best approach going forward.

b. Fully reflect the most current interest rate forecast in the interest capitalized cost included in CEF. Also provide sensitivity analysis as to how changes in interest rate will impact on capital spending estimates.

8) Export Prices

a. Provide more insight into the critical assumptions that form the basis for the export price forecast and, therefore, lead to "error" if incorrect.

9) Low Income Energy Assistance

a. Participate in a stakeholdering process with interest parties to:

1. Undertake a SWAT analysis – strengths, weaknesses, and threats of current initiatives and identify potential changes. This would entail both reporting on the finding of the SH process as well as MH's reaction/plans to address.
2. Identify other options for LI energy assistance – pros/cons etc. Again this would entail a report of SH process outcome and MH reaction.